

Written evidence submitted by Cllr Richard Watts

Dear Meg,

Timeliness of local auditor reporting on local government in England

I am writing as Chair of the Local Government Association's (LGA) Resources Board to share our analysis ahead of your Committee's inquiry into the timeliness of local auditor reporting on local government in England. In this letter I will highlight our concerns on the late delivery of audit opinions; our views on the proposed creation of an Office of Local Audit Regulation (OLAR) and the feedback from our members which suggests that long-term causes of delays are more related to the pressures on auditors than councils.

Councils have faced significant financial pressures since 2010 due to reductions in funding and increased demand for services. It was therefore welcome to see the NAO recognise this financial challenge, and the need for strong arrangements to manage finances and secure value for money. We agree with the NAO that the late delivery of 2019/20 audit opinions is concerning, given the important role that external audit plays in assurance over taxpayers' money both centrally and locally. We would also agree that that the system has "worsened" and it seems that missing audit deadlines has become normal. However, the LGA also recognises that extra demands on auditors over the last two years has led to the de-prioritisation of deadlines. An example of this is the additional work that audit firms are required to do as a result of the requirements of the Financial Reporting Council (FRC), additional work that many believe is not a high priority in the governance of local authorities. It may be worth noting that Sir Tony Redmond reported in his review that the FRC "believes that if a focus on asset and pension valuations is inappropriate, this is the responsibility of the partnership between CIPFA (England, Northern Ireland and Wales) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) known as CIPFA/LASAAC to resolve, through modifications to the Accounting Code" (Redmond report paragraph 2.3.15).

It is crucial that stakeholders in local government and audit work together to address these problems. However, creating an Office of Local Audit Regulation (OLAR), as recommended in the Redmond Review, is not the solution and we strongly oppose the proposal of a new body. Bringing together auditor procurement and audit regulation in a single body, as was proposed, will create problems. For instance, this combination of functions does not occur in other industry regulating bodies. There could be a conflict of interest, for example, if auditors defend poor performance by criticising the contract. Procurement and contract management remain crucial, but this is separate from regulation and should be carried out by a separate body. It will require a lot more work across a whole range of bodies and stakeholders to resolve, not least the audit firms and the audit profession itself. We are therefore pleased that the Government remains committed to a locally led audit regime and is not currently minded to create the proposed new body.

Local government audit has been impacted by COVID-19 due to increased demand on local authorities in responding to the pandemic, as well as auditors and audited bodies having to adapt

their working practices. We also note that audit demands have increased and the attractiveness of local audit to the supplier market has declined. Furthermore, there is evidence that among the relatively few registered firms that remain in the market, there are too few qualified senior auditors (termed Key Audit Partners) to ensure the resilience of the system. While we do not disagree that a shortage of resources and capacity in councils, particularly of suitably qualified staff, have had an impact on the timeliness of audit, feedback from our members suggests that long-term causes of delays are more related to the pressures on auditors.

It has been positive to see that MHCLG has [laid regulations](#) which move the audit deadline to 30 September for the next two years, which is a step in the right direction. It is also welcome to see that MHCLG is looking to impose other recommendations that can be implemented quickly. For example, it is [consulting on proposed changes to the timetable for setting audit fees](#).

I hope the information outlined above is useful. If we can help with anything else, please do not hesitate to get in touch with my colleague laura.johnson@local.gov.uk.

Yours sincerely,

A handwritten signature in black ink that reads "Richard Watts". The signature is written in a cursive style with a large 'R' and 'W'.

Cllr Richard Watts,
Chair
LGA's Resources Board

May 2021